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EXCISE

THROUGH: DCM - Mr. Pascoe

FROM: ECON - Mr. Larocco 2

SUBJECT: Background Briefing Memo for CODEL RUDMAN

11/27/96

Date:

Wg

IS/FPC/CDR

DEPARTMENT OF STATE

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☐ SECRET

☐ DECLASSIFY
☒ DECLASSIFY IN PLACE
☐ NO FURTHER ACTION

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likely have an impact on the overall Sino-U.S. relationship, comes at the end of this month.

[REDACTED]

ECONOMIC:

Since the beginning of China's generally successful economic reform program in 1978, Sino-American trade has expanded by a factor of ten to \$14 billion annually and American direct investment in China has grown to over \$3 billion. We are China's third largest trade partner and her second largest source of private capital.

Even before Tiananmen, China faced very serious economic problems including shortages of energy, raw materials, foreign exchange, and consumer goods as well as escalating inflation, rising budget deficits and a widening trade gap. Recent political events and the Western reaction to them have further exacerbated China's problems in attracting foreign aid and investment. Currently pursuing a policy of retrenchment, China's economic policy makers face a difficult task in continuing market and price reforms while still controlling inflation and avoiding stagnation.

COMMERCIAL:

While doing business in China is still a difficult proposition, it has vastly improved since the first American businessmen came here in the late '70's. The most important sign of serious intent to attract foreign investment came in October 1986 with the issuance of the twenty-two Articles on Foreign Investment. Investment conditions continued to improve since that date and there was reason to believe that this trend would continue. However, with the recent resurgence of the conservative wing or "old-guard" political leaders and the return to central planning, many American companies are questioning the future of the China market. This uncertainty combined with serious fundamental economic problems has sent most potential investors to the sidelines to wait for clearer signals.

PRESS AND CULTURAL:

Since its opening in the early '80's, USIA's China program has grown to one of its most important in the world. Prior to the recent turmoil, the Fulbright and International Visitors (IV) programs here were the largest in the world. As noted above, the Chinese have suspended the Fulbright program for this year. Most of the IV candidates have cancelled and the prospect for travel by the remainder is unclear. The Voice of America is a major part of USIA's China program and certainly the most visible program now. Two VOA reporters were expelled from China this summer and most of VOA's Chinese broadcasts continue to be jammed by the Chinese government. It is, however, usually possible to find a clear broadcast among the many frequencies VOA is using. Other important USIA programs in China include an extensive book translation program, a Chinese language quarterly magazine and several exchanges under the U.S.-PRC Cultural Agreement.

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SCIENCE AND TECHNOLOGY:

The principal work of the Science and Technology (S&T) section is the administration of the 1979 Agreement between the U.S. and the PRC on Cooperation in Science and Technology. The detailed agreements on the collaboration in science are contained in some 30 protocols and memoranda of understanding between agencies in the U.S. and China. In general, the exchanges have gone smoothly. The 1989 renewal of the agreement has been complicated by the Omnibus Trade Bill of 1988 which requires all S&T agreements to include an annex on Intellectual Property Rights. Negotiations on this issue proceeded smoothly from November 1988, but broke off following the Tiananmen incident. It appears that the agreement will be extended and a new agreement negotiated. No agency on either side is interested in dropping the agreement.

AGRICULTURAL:

The Foreign Agricultural Service (FAS) program in China consists of agricultural reporting, trade support and promotion and scientific and technical exchanges in the field of agriculture. With the opening of the China market in the late '70's, China became a major market for American agricultural products. However, with the success of China's agricultural reforms, this situation reversed and China became a major exporter. In the last few years, this situation has again reversed and China has become a major market for American products, especially cotton and wheat. Nearly one-third of U.S. exports to China are agricultural; in 1988 U.S. agricultural exports to China totaled \$757 million and forest product exports totaled \$449 million. Recent political events do not seem to have affected these exports to China. FAS's trade promotion program has been seriously affected by lack of American visitors to China and the evacuation of American corporate personnel in China.

CONSULAR:

While some Embassy activities have slowed down as a result of the recent crackdown, the consular section continues to face high demand for visa services. An average of 400-500 Chinese a day seek to apply for non-immigrant visas. Due to staff constraints, only 250 to 300 applications can be reviewed daily. Furthermore, the section has received nearly 250 Congressional inquiries in the last six weeks, compared to 25-30 that they normally receive in that time frame. While there are only about 300 American citizens residing in China today (compared with about 1200 before the evacuation), the consular section is still handling a large number of cases involving assistance to American citizens, most of which are related to recovering property left behind during the evacuation.

ADMIN:

The Embassy's Administrative section has not seen much change in its day-to-day working conditions since June 4. The PRC government has moved quickly to settle all claims involving personal and

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official property damaged in the June 7 PLA firings on the Diplomatic Compound. The only exceptional occurrence on the administrative front has been harassment involving bills for the Voice of America. This does not, however, seem to pose any threat to continued VOA operation.

drafted: ECON, RKWILLIAMS

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